

Message Text

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PAGE 01 ADDIS 02357 261050Z

47

ACTION EB-07

INFO OCT-01 AF-06 ARA-06 EA-07 NEA-10 ISO-00 AGR-05 CEA-01

CIAE-00 COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 FEA-00

OMB-01 /109 W

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R 260859Z FEB 76

FM AMEMBASSY ADDIS ABABA

TO SECSTATE WASHDC 8309

INFO AMEMBASSY ABIDJAN

AMEMBASSY BOGOTA

AMEMBASSY BRASILIA

AMEMBASSY GUATEMALA

AMEMBASSY JAKARTA

AMEMBASSY KINSHASA

AMEMBASSY MANAGUA

AMEMBASSY MEXICO CITY

AMEMBASSY NAIROBI

AMEMBASSY NEW DELHI

AMEMBASSY QUITO

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

AMEMBASSY SANTO DOMINGO

AMEMBASSY TEGUCIGALPA

AMEMBASSY YAOUNDE

AMCONGEN ASMARA

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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PAGE 02 ADDIS 02357 261050Z

SUBJECT: CONGRESSIONAL HEARINGS ON COFFEE PRICE INCREASES

REF: A) STATE 034044, B) ADDIS ABABA 0662, C) 75 ADDIS ABABA A-161

1. ANSWERS TO QUESTIONS RAISED REF A FOLLOW:

A. LARGE MAJORITY ETHIOPIAN COFFEE MARKETED LOCALLY IS SOLD IN GREEN FORM AND IS ROASTED BY INDIVIDUAL CONSUMERS. THERE ARE A HANDFUL OF LOCAL PROCESSERS WHO ROAST AND GRIND COFFEE FOR SALE IN ADDIS ABABA AND OTHER CITIES. SUCH COFFEE OF FIRST QUALITY IS CURRENTLY SELLING FOR EQUIVALENT OF 88 TO 92 US CENTS PER POUND. PRE-FROST PRICES FOR SIMILAR COFFEE WERE REPORTEDLY 55 TO 60 US CENTS PER POUND. UNPROCESSED GREEN COFFEE CURRENTLY RETAILING FOR ABOUT 77 US CENTS PER POUND COMPARED TO 38 TO 40 US CENTS PER POUND BEFORE BRAZILIAN FROST.

B. DOMESTIC COFFEE ROASTERS MUST COMPETE AT AUCTION WITH COFFEE EXPORTERS FOR AVAILABLE GREEN COFFEE. IN FACT, MOST OF THE LOCAL ROASTERS ARE ALSO EXPORTERS AND BUY COFFEE SIMULTANEOUSLY FOR BOTH PURPOSES. COFFEE AUCTION PRICE IN ADDIS ABABA IS CURRENTLY EQUIVALENT TO 59 US CENTS PER POUND. LOCAL ROASTERS ARE THUS PAYING THIS PRICE FOR EXPORT QUALITY COFFEE. IN JUNE 1975 AVERAGE AUCTION PRICE WAS APPROXIMATELY 30 US CENTS. HOWEVER, LOWER QUALITY COFFEE IS OFTEN BOUGHT AT DISCOUNT FOR LOCAL ROASTING.

C. ETHIOPIAN GOVERNMENT HAS NOT CHANGED POLICY REGARDING COFFEE EXPORTS SINCE THE BRAZILIAN FROST AND RESULTANT PRICE RISE. ETHIOPIAN GOVERNMENT HAS LONG IMPOSED COFFEE EXPORT SURCHARGE WHICH IS BASED ON NEW YORK PRICE OF SANTOS 4 COFFEE FROM BRAZIL. WITH PRICE RISES, SURCHARGE HAS RISEN TO OVER 36 US DOLLARS PER 100 KILOGRAMS OR 16 US CENTS PER POUND. COFFEE EXPORTERS CLAIM THAT SURCHARGE IS DETERRENT TO COFFEE EXPORTS BUT IN CURRENT SELLER'S MARKET CONDITIONS, WE HAVE NOT WITNESSED ANY RESULTANT DROP IN EXPORTS OR INCREASE IN SMUGGLING TO NEIGHBORING COUNTRIES. THE GOVERNMENT'S PUBLIC STANCE, SUPPORTED BY LOCAL COFFEE EXPORTERS, IS TO ENCOURAGE MAXIMUM COFFEE EXPORTS IN ORDER TO OBTAIN FX NEEDED FOR ETHIOPIA'S DEVELOPMENT EFFORTS.

D. COFFEE PRODUCERS (COOPERATIVES, INDIVIDUAL FARMERS, AND GOVERNMENT-MANAGED STATE FARMS) ARE CURRENTLY RECEIVING APPROXIMATELY 54 US CENTS PER POUND FOR COFFEE. PRICE IS NOT FIXED BUT FLUCTUATES DAILY IN RELATION TO WORLD MARKET PRICES. PRODUCERS HAVE OPTION OF SELLING TO PRIVATE TRADERS OR GOVERNMENT COFFEE PRODUCTION AND PROCESSING AGENCY IN INTERIOR OR TRANSPORTING

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PAGE 03 ADDIS 02357 261050Z

TO COFFEE AUCTION IN ADDIS ABABA AND SELLING DIRECTLY TO EXPORTERS. OF THE ADDIS ABABA EXPORT PRICE OF 59 US CENTS PER POUND, THE PRODUCERS ARE CURRENTLY GETTING 54 WITH THE REMAINING 5 US CENTS PER POUND COVERING TRANSPORT TO ADDIS ABA A PLUS A SMALL PROFIT FOR THE BROKER. PRE-FROST PRICES TO PRODUCERS WERE IN RANGE OF 18 US CENTS PER POUND. THUS, FARMERS ARE RECEIVING A SUBSTANTIAL SHARE OF INCREASED COFFEE REVENUES.

E. IT IS VERY DIFFICULT TO ISOLATE THOSE GOVERNMENT MEASURES

RELATED TO THE HIGHER PRICES FROM THE GENERAL REORGANIZATION OF THE AGRICULTURAL SECTOR RESULTING FROM THE NATIONALIZATION OF ALL LAND AND OTHER CHANGES RELATED TO THE POLITICAL AND ECONOMIC POLICIES OF THE NEW ETHIOPIAN GOVERNMENT. ON THE POSITIVE SIDE, EPMG HAS MOVED TO MAKE CREDIT AVAILABLE TO NEWLY-FORMED PEASANT ASSOCIATIONS (COOPERATIVES) WHICH HAVE BEEN ESTABLISHED.

GOVERNMENT IS ALSO UNDERTAKING EFFORT TO EDUCATE PEASANT FARMERS IN PROPER WEEDING AND PICKING TECHNIQUES. KNOWLEDGEABLE LOCAL COFFEE EXPORTER ESTIMATED THAT ETHIOPIAN COFFEE EXPORTS COULD BE INCREASED 30 TO 40 PERCENT WITH IMPROVED METHODS OF FARMING AND PICKING. IT IS IN THIS AREA, IN DEVELOPMENT OF COFFEE BERRY DISEASE-RESISTANT TREES AND ESTABLISHMENT OF PEASANT COOPERATIVES RATHER THAN INCREASED ACREAGE THAT GOVERNMENT IS PLACING EMPHASIS.

2. COFFEE SITUATION IN ETHIOPIA IS FREE MARKET OPERATION, ALBEIT WITH CONSIDERABLE GOVERNMENT PARTICIPATION. THE LOCAL RETAIL COFFEE PRICE (88 TO 92 US CENTS PER POUND) IS ALMOST IDENTICAL TO FOB EXPORT PRICE. FROM ETHIOPIAN VIEWPOINT, RISE IN COFFEE PRICES IS RELATED TO SUPPLY SHORTFALL DUE TO SERIES OF CALAMITIES IN OTHER EXPORTING COUNTRIES. IN FREE MARKET SYSTEM, SUCH A SUPPLY SHORTAGE LEADS TO PRICE RISES. EMBASSY HAS SEEN NO EVIDENCE OF ATTEMPT BY ETHIOPIA TO RESTRICT SUPPLY OR ARTIFICIALLY RAISE PRICES. ETHIOPIA REMAINS RELATIVELY MINOR PRODUCER IN WORLD COFFEE MARKET AND IS "PRICE TAKER" RATHER THAN "PRICE SETTER". AT PRESENT TIME AND FORESEEABLE FUTURE ETHIOPIAN OFFICIALS AND PRIVATE COFFEE TRADERS EXPECT PRICES TO REMAIN HIGH AND THEY WILL CONTINUE TO TAKE ADVANTAGE OF FAVORABLE MARKET SITUATION IN FREE MARKET SYSTEM.

3. ETHIOPIAN COFFEE EXPORTERS ASSOCIATION RECENTLY PUBLISHED STATISTICS STATING OCT 1974-SEPT 1975 COFFEE YEAR EXPORTS TOTALLED 59,000 TONS WITH VALUE OF 73 MILLION US DOLLARS. LATEST LIMITED OFFICIAL USE

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PAGE 04 ADDIS 02357 261050Z

ESTIMATES FOR CURRENT YEAR ARE 75-86,000 TONS DUE TO FAVORABLE WEATHER CONDITIONS PLUS HIGH PRICES.

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